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SUBJECT: BULGARIA: NEW TOOLS IN THE FIGHT AGAINST MONEY
LAUNDERING AND TERRORIST FINANCE

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¶1. (SBU) SUMMARY: Under U.S. and EU urging, Bulgaria has begun considering more sophisticated tools to fight organized crime (OC), especially its financial aspects. Complex money laundering schemes finance massive, pervasive local underground activities. Recognizing that inadequate laws and weak enforcement capabilities have been unable to control/penetrate the situation, Parliament recently passed amendments enhancing the powers of the Financial Intelligence Agency (FIA) to obtain bank information without a court order. Additional new legislation complements these provisions by allowing the Chief Prosecutor direct access to bank records when money laundering or OC activity is suspected. Improved interagency coordination and a planned Ministry of Interior (MOI) unit specializing in money laundering round out the options recently put on the table. USG coordination with the GOB focuses primarily on equipping officials with the necessary tools and training to fight money laundering and best use tight resources. END SUMMARY

NEW LAWS GIVE GOB SHARPER TOOLS...

¶2. (SBU) Bulgaria's fight against OC has so far been undermined by its inability to stem the flow of proceeds from criminal activity being laundered and repatriated into seemingly legitimate investments. The problem is not an inadequate legal framework: Bulgaria's laws generally conform to the recommendations set forth by the Financial Action Task Force (FATF). In a June 29 meeting, the Director of the FIA, Dr. Vassil Kirov, offered us a very positive assessment of recent efforts to address OC by improving the ability of the FIA and law enforcement to "follow the money." Parliament recently passed a Law on Credit Institutions, which contains a provision allowing the Chief Prosecutor (CP) to obtain bank records directly from the bank without a court order when there is a suspicion of money laundering or an OC offense. (Note: To prevent abuse of this provision, USAID/Bulgaria has provided CP Velchev with a Best Practices memo on setting the level of proof needed to demonstrate an underlying predicate of criminal activity.)

¶3. (U) Parliament even went a step further, passing several amendments to the Law on Measures Against Money Laundering (LMML) that will expand the circumstances in which law enforcement agencies can collect information in potential money laundering cases. Previously, the FIA was only able to access bank information without a court order when four kinds of institutions -- banks, insurers, privatization bodies, and the Central Depository -- issued suspicious transaction reports (STRs). These amendments strengthen the FIA's investigation capabilities by enabling it to access records when 26 additional reporting entities issue an STR, including

casinos, attorneys, real estate brokers. While these amendments may have little immediate impact, since virtually all of the STRs are currently only issued by reporting entities in the first four categories, law enforcement efforts could be significantly enhanced as more of the reporting entities start issuing STRs -- long a USG goal.

...BUT IMPLEMENTATION AND ENFORCEMENT STILL DRAGGING

¶4. (SBU) Even with these new legislative measures, Bulgaria continues to lag in its implementation and enforcement of existing legal mechanisms to fight money laundering. Weak collaboration within the Government plagues many of its initiatives. On July 3 the FIA, MOI, and prosecution service signed a "joint instruction" document to improve interagency cooperation in money laundering cases. (The FIA lacks law enforcement authority and must forward matters which merit investigation to the MOI.) The document stipulates 1) that the FIA copy the Chief Prosecutor when sending the MOI case referral letters (including attachments such as bank records, FIA analyses, etc.), and 2) that the MOI report to the CP its views regarding any such referral within 30 days of the date of referral. The specific details of how these informal instructions will be implemented have not yet been worked out, and Interior Minister Petkov's commitment to such cooperation has not yet been tested.

¶5. (SBU) A related problem is that even so-called "specialists" on money laundering often lack the experience and training to be truly effective in investigating and prosecuting suspected cases. The FIA is preparing to add 10 staff in order to better supervise the LMML's 30 categories of reporting entities, but Kirov has told us that these individuals will be seconded -- probably from Customs and the National Revenue Agency (NRA) -- rather than added as new

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hires, as we had originally been informed. Although OTA and USAID's Financial Sector Integrity Project (FSIP) have explored options to assist in training new inspectors, our offer has been put on hold given the changed staffing arrangement. The MOI plans to establish a money laundering unit, staffed with 15 investigators, although observers believe the unit will require as many as 60 investigators to be fully effective. Within the Prosecution Service, which already includes prosecutors specializing in money laundering cases, CP Velchev plans to organize district-level units focusing on OC, corruption, and money laundering, and to link these units to those within the MOI.

THE TOOLS THAT THE USG IS PROVIDING

¶6. (U) USG assistance focuses primarily on providing guidance in implementation efforts and building enforcement capacity. OPDAT's focus on financial investigation and financial profiling reflects its objective to curb the flow of money to human traffickers. OPDAT in particular notes the extensive training needed by specialists in the prosecutor's office and the police forces. Treasury's Office of Technical Assistance (OTA) has conducted workshops on money laundering and financial crimes to train representatives from the MOI, Prosecution Service, FIA, National Revenue Agency, and Asset Forfeiture Commission. The GOB also reports difficulty in tracking and investigating money laundering cases. We are doing a cost analysis were the USG to provide sufficient equipment and software to meet their needs.

¶7. (U) Promoting interagency and intergovernmental collaboration is also a USG priority, and both OTA and OPDAT have urged the GOB to strengthen its emphasis on collaboration in money laundering cases. OTA hosts monthly meetings of a Financial Crimes Task Force, whose members reflect a range of law enforcement agencies fighting OC,

including the MOI, Prosecution Service, NRA, Customs Agency, Bulgarian National Bank, and FIA. OTA and OPDAT are also working together to develop a Best Practices Manual to assist the MOI and Prosecution Service in the investigation and prosecution of money laundering cases.

¶ 8. (U) Bulgarian investigators tracking suspicious money trails are often thwarted when criminals launder funds through offshore corporations established in Cyprus, the Channel Islands, the Caribbean, the U.S., and elsewhere. USG enforcement agencies -- including the FBI, U.S. Secret Service, and DEA -- are providing direct operational assistance in joint investigative activities that have a U.S. nexus, working to expeditiously identify people behind these layers of shell companies when U.S. incorporation and/or bank accounts were used in the laundering process.

COMMENT: WILL THESE TOOLS DO THE JOB?

¶ 9. (SBU) Most of these recent developments are finally surfacing after percolating in interagency negotiations over the course of the past several months. Although these measures have yet to prove their immediate effectiveness in practice, they highlight the growing political will to face up to the bad guys -- OC figures and even highly placed officials -- as demonstrated by the June arrest of the former head of Sofia Heating Utility on money laundering charges. It is unlikely that the prosecution service will be able to churn out any high-profile money laundering indictments in advance of the EU's final monitoring report, due September 26, but these legislative and structural measures reaffirm the Government's stated commitment to rooting out OC and its attendant vices. END COMMENT

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